

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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SIL-01 PM-07 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

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R 051520Z APR 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 8877

INFO AMCONSUL ZURICH UNN

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DEPT PASS TREASURY AND FEDERAL RESERVE

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SUBJ: SWISS VIEWS ON MONETARY RELATIONSHIPS

REF: BERN 0722

1. SUMMARY. SWISS BANKERS GENERALLY EXPECT FIRMER
DOLLAR/SF RATE AND ARE INCREASINGLY FOCUSING ATTENTION
ON RELATIVE INTEREST RATES AND TECHNICAL ASPECTS
EXCHANGE MARKET OPERATIONS UNDER FLOATING RATES. OTHER
SUBJECTS OF CURRENT INTEREST ARE EUROCURRENCY MARKETS,
WORLDWIDE INFLATION, POSSIBLE IMF MEMBERSHIP, AND NEW
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SWISS NATIONAL BANK (SNB) MANAGEMENT TEAM. END

SUMMARY.

2. SWISS COMMERCIAL BANKERS GENERALLY EXPECT FIRMER TREND FOR DOLLAR OVER NEAR TERM, ALTHOUGH THEY HOPE THAT UPWARD MOVEMENT WILL NOT ACCELERATE UNDULY AND WOULD ALSO LIKE TO SEE LESS SHARP DAILY RATE FLUCTUATIONS. IN RECENT CONTACTS WITH EMBOFFS, SWISS HAVE USUALLY POINTED TO DIFFERENTIAL IN RELATIVE SHORT-TERM INTEREST RATES AS AMONG KEY CAUSES OF DOWNWARD MOVEMENT OF DOLLAR, WHICH APPARENTLY CAME TO END AT END OF MARCH. WITH DOLLAR INTEREST RATES MOVING UPWARD AND LESS TIGHTNESS FOR SWISS FRANC AFTER END OF FIRST QUARTER AND AS RESULT SNB SWAP AND OTHER ASSISTANCE TO COMMERCIAL BANKS IN MEETING WINDOW-DRESSING OBLIGATIONS, BANKERS NOW FEEL THAT INTEREST-SENSITIVE FUND MOVEMENTS WILL OCCUR TO LESSER EXTENT. SWISS CONTINUE TO WATCH DM CLOSELY AND ARE DETERMINED AVOID ANY SIGNIFICANT CHANGE IN DM/SF CROSS-RELATIONSHIP. THEY ALSO ASSUME THAT CENTRAL BANKS WILL INTERVENE TO MANAGE FLOAT WHEN RATES BECOME INAPPROPRIATE.

3. WE FIND GROWING INTEREST IN HOW SIZABLE DAILY FLUCTUATIONS IN FLOATING RATES CAN BE SMOOTHED. (SEE FOR EXAMPLE NEW YORK TIMES INTERVIEW WITH INCOMING SNB PRESIDENT LEUTWILER CARRIED IN INTERNATIONAL HERALD TRIBUNE MARCH 26.) COMMERCIAL BANKERS ADMIT PRIVATELY THAT LEUTWILER ACCURATELY PUT FINGER ON ONE PROBLEM WHEN HE CITED OPERATIONS OF BANK FOREIGN EXCHANGE DEPARTMENTS ON OWN ACCOUNT OR EVEN THAT OF INDIVIDUAL TRADERS. IN ADDITION, SNB OFFICIALS NOT ENTIRELY SATISFIED WITH STRUCTURAL CHARACTERISTICS OF ZURICH FOREIGN EXCHANGE MARKET, NOTING THAT THERE IS NO DAILY FIXING WHEN ALL BUYERS AND SELLERS, INCLUDING SNB, CAN ASSESS MARKET TONE AND DECIDE WHETHER BUY OR SELL.

4. SWISS ALSO WATCHING EUROMARKETS WITH SOME CONERN, NOTING SUBSTANTIAL DEMANDS RECENTLY PLACED ON LARGELY SHORT-TERM, LIQUID FUNDS WHICH LARGELY CONSTITUTE MARKET. ONE KNOWLEDGEABLE ECONOMIC ADVISOR TO MAJOR SWISS BANK ESTIMATES THAT EURO-SWISS FRANC MARKET CURRENTLY LIMITED OFFICIAL USE

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IS IN SF 30-40 BILLION RANGE COMPARED WITH TOTAL EURO-MARKET WHICH HE ESTIMATES AT UP TO DOLLARS 200 BILLION. MAJOR SWISS BANKS HAVE HAD SOME SUCCESS IN ATTRACTING FUNDS OUT OF EUROMARKET BY OFFERING HIGH DEPOSIT RATES TIED TO EURO-SWISS FRANC RATE FOR LARGE DOMESTIC DEPOSITS.

5. SWISS CONTINUE TO BE PREOCCUPIED BY INFLATION, BOTH

DOMESTIC AND ABROAD, WHICH LARGELY EXPLAINS THEIR HESITANCY RE SECURITIES PURCHASES AND CONTINUING INTEREST IN GOLD. INFLATIONARY EFFECT OF HIGHER INTEREST RATES IN SWITZERLAND (THROUGH FLOATING MORTGAGE RATES, HIGHER RENTS, HIGHER AGRICULTURAL PRICES) REDUCES SCOPE FOR MONETARY POLICY AND FORCES RELIANCE ON CREDIT CELINGS, CONSTRUCTION CURB, ETC. WE EXPECT BANKING COMMUNITY TO WELCOME FEDERAL COUNCIL DECISION APRIL 3 TO RAISE TAXES AND SEEK CURTAIL EXPENDITURES IN ORDER LIMIT GROWING GOVERNMENT DEFICITS. BANKERS ARE, HOWEVER, PROBABLY DUBIOUS RE HOW EFFECTIVE THIS PROGRAM WILL BE. SWISS CONSUMER PRICE INDEX DECLINED IN BOTH JANUARY AND FEBRUARY BUT THIS DUE ENTIRELY TO LOWER HEATING OIL COSTS; FURTHER SIGNIFICANT PRICE INDEX INCREASES ARE LIKELY IN MONTHS AHEAD.

6. WE UNDERSTAND FROM COMMERCIAL BANK SOURCE THAT SNB HAS RECENTLY SUBMITTED INTERNAL REPORT COMING DOWN GENERALLY AGAINST SWISS MEMBERSHIP IN IMF AT THIS TIME ON GROUNDS INTER ALIA THAT SWISS SEAT AS EXECUTIVE DIRECTOR AND ON COUNCIL OF GOVERNORS NOT ASSURED AND THAT IMF MEMBERSHIP WOULD ENTAIL CERTAIN DIFFICULT GOS OBLIGATIONS AND POSSIBLE CHANGED FUNCTION OF SWISS FRANC (I.E., MOVE IN UNDESIRE DIRECTION TOWARD BECOMING RESERVE CURRENCY). OTHERS IN GOS STILL FAVOR IMF MEMBERSHIP; ISSUE HAS AS YET NOT REALLY BEEN JOINED.

7. BANKERS GENERALLY COMMENT FAVORABLY ON NOMINATION OF LEUTWILER AS SNB PRESIDENT. THEY SEEM HAVE HIGH REGARD FOR SCHURMANN, BUT SOME ARE CONCERNED AT HIS LACK OF PREVIOUS BANKING EXPERIENCE. (BERN 1048.) OUTGOING PRESIDENT STOPPER WILL MAKE FINAL REPORT AT SNB ANNUAL MEETING APRIL 25 WHICH SHOULD PROVIDE CLEAR LIMITED OFFICIAL USE

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INDICATION OF CURRENT SNB VIEWS ON VARIETY OF SUBJECTS. NAME MOST OFTEN MENTIONED AS PROBABLE SUCCESSOR TO ALEXANDRE HAY AS SNB DIRECTOR AND CHIEF BERN OFFICE IS AMBASSADOR PIERRE LANGUETIN OF DIVISION OF COMMERCE. HAY'S RESIGNATION NOT YET SUBMITTED BUT HE WIDELY EXPECTED LEAVE SNB BEFORE END OF YEAR.
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